

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

OMB-01 EB-07 TRSE-00 FEA-01 COME-00 AGR-05 /071 W

----- 127057

R 091200Z APR 76

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 2754

INFO COMUSMACTHA BANGKOK

CINCPAC HONOLULU

C O N F I D E N T I A L BANGKOK 9171

CINCPAC ALS FOR POLAD

E.O. 11652: GDS

TAGS: PINT TH ECRE EGEN PGOV

SUBJ: PROSPECTIVE DOMESTIC PROBLEMS FOR THE NEW THAI GOVERNMENT

SUMMARY: THE NEW DEMOCRAT-LED THAI GOVERNMENT WILL FACE SEVERAL FORMIDABLE INTERNAL POLITICAL AND ECONOMIC TASKS IMMEDIATELY UPON ASSUMING OFFICE. THE DEMOCRATS' IMPRESSIVE MANDATE WILL BE QUICKLY ERODED IF THE PUBLIC DOES NOT SEE RAPID PROGRESS IN AT LEAST SOME OF THESE TASKS. AMONG THE PROBLEMS THEY WILL FACE ARE DETERIORATION OF LAW AND ORDER, INTERNAL SECURITY, CONTINUING BUREAUCRATIC INEFFICIENCY, COMMODITIES PRICE INCREASES, A CONTINUING POOR INVESTMENT CLIMATE, AND LAND REFORM. END SUMMARY

1. BECAUSE THE DEMOCRATS RECEIVED SUCH A LARGE PLURALITY, IN THE APRIL 4, ELECTIONS, THE THAI PUBLIC WILL BE EXPECTING A MUCH STRONGER AND MORE STABLE GOVERNMENT THAN THE PREVIOUS COALITION PROVIDED. THEY WILL EXPECT A TOUGHER RESPONSE TO LAWLESS ELEMENTS OF ALL KINDS, AS WELL AS RIGHT AND LEFT WING POLITICAL ACTIVISTS. CONFIDENTIAL

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THE DEMOCRATS HAVE ALREADY PAID LIP SERVICE TO THESE DESIRES, BUT THEY WILL HAVE TO TAKE RAPID AND EFFECTIVE ACTION WHICH WILL BE VIEWED BY THE PUBLIC AS ADEQUATELY ADDRESSING THIS PROBLEM OF IMPROVING SECURITY. IF THEY FAIL, PUBLIC CONFIDENCE IN THE GOVERNMENT'S ABILITY TO RUN THE COUNTRY WILL DECREASE.

2. THE PUBLIC WILL ALSO EXPECT VISIBLE IMPROVEMENTS IN THE EFFICIENCY AND HONESTY OF THE GOVERNMENT AND BUREAUCRACY. THE DEMOCRATS MADE A POINT OF ATTACKING GOVERNMENT CORRUPTION DURING THE CAMPAIGN, AND IF THE PUBLIC DOES NOT PERCEIVE STEADY IMPROVEMENT IN THIS AREA, SUPPORT FOR THE GOVERNMENT WILL ERODE FURTHER. THE DEMOCRATS HAVE NEVER PROPOSED FUNDAMENTAL CHANGES IN THE BUREAUCRATIC STRUCTURE, AND INSTEAD INTEND TO RELY ON THE PLACING OF HONEST AND CAPABLE PEOPLE IN MINISTERIAL POSITIONS TO DO THE TRICK. HOW HONEST DEMOCRAT MINISTERS AND MINISTERS FROM OTHER COALITION PARTIES WILL BE, AND HOW MUCH OF AN EFFECT THEY WILL HAVE ON BUREAUCRATIC CORRUPTION AND INEFFICIENCY, REMAINS TO BE SEEN.

3. AMONG THE ECONOMIC ISSUES REQUIRING ATTENTION BY THE NEW GOVERNMENT IS PRICE RELIEF FOR PETROLEUM PRODUCTS AND CEMENT. THE PREVIOUS GOVERNMENT ASSURED THE OIL COMPANIES IN DECEMBER THAT PRICE RELIEF TO COMPENSATE FOR HIGHER COSTS OF CRUDE OIL WOULD BE GIVEN IN JANUARY. IT RENEGED IN THE FACE OF THE CONTROVERSY OVER THE RICE PRICE INCREASES AND SHELVED THE ISSUE UNTIL AFTER THE ELECTION. WHILE CEMENT PRICES ARE NOT POLITICALLY SENSITIVE IN THE SAME SENSE AS RICE OR GASOLINE PRICES, RELIEF TO THE CEMENT INDUSTRY IS AN IMPORTANT TEST OF THE GOVERNMENT IN THE EYES OF THE BUSINESS COMMUNITY, SINCE SIAM CEMENT IS ONE OF THE LARGEST THAI INDUSTRIAL COMPANIES AND ONE OF THE FEW COMPANIES WHOSE STOCK IS ACTIVELY TRADED ON THE SECURITIES EXCHANGE OF THAILAND. IF THE GOVERNMENT ALLOWS THE PRICE INCREASES FOR PETROLEUM AND CEMENT, IT WILL HELP THE INVESTMENT CLIMATE. IF IT DOES NOT, THE ALREADY POOR CLIMATE WILL BE MADE THAT MUCH WORSE.

4. THE INVESTMENT CLIMATE MAY BE AFFECTED BY OTHER THINGS AS WELL. THE ONLY MAJOR ACTION TAKEN BY THE DEMOCRATS
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DURING THEIR SHORT TENURE OF OFFICE IN FEBRUARY-MARCH, 1975, WAS THE REVOCATION OF THE TEMCO TIN MINING CONCESSIONS WHICH HAD SERIOUS ADVERSE EFFECTS ON FOREIGN INVESTMENT. THE KHUKRIT GOVERNMENT SPENT A GREAT DEAL OF EFFORT IN ATTEMPTING TO REPAIR THE DAMAGE AND PROBABLY WENT AS FAR AS IT COULD, GIVEN THE SITUATION IT INHERITED FROM THE DEMOCRATS. PAT LYONS, FORMERLY OF TEMCO AND NOW WITH SHELL (WHICH HAS A MANAGEMENT CONTRACT TO OPERATE THE FORMER TEMCO CONCESSIONS), TOLD EMBASSY OFFICERS BEFORE THE ELECTION THAT IF THE DEMOCRATS CAME BACK, SHELL WOULD PROBABLY GIVE UP ITS ATTEMPT TO RESUME TIN OPERATIONS, LAY OFF ITS REMAINING EMPLOYEES AND TRY TO SELL ITS EQUIPMENT.

5. THE RICE PRICE ISSUE, A CENTRAL ONE IN JANUARY,

CONCEIVABLY COULD FADE AWAY, WITH RETAIL PRICES BEING ALLOWED TO RISE IN BANGKOK WITHOUT FANFARE. NO ONE CAME OUT WELL ON THIS ISSUE, NEITHER THE GOVERNMENT WHOSE PLAN TO LINK AN INCREASED PADDY PRICE FOR FARMERS TO HIGHER RETAIL PRICES WAS NOT WELL THOUGHT OUT, NOR LABOR, WHICH FOUND ITSELF IN THE UNCOMFORTABLE ROLE OF BEING AGAINST A PLAN TO BENEFIT THE FARMERS.

6. WORK ON THE BUDGET IS ALREADY WELL ADVANCED, SO THE NEW GOVERNMENT HAS ONLY A LIMITED OPPORTUNITY TO PLACE ITS OWN BRAND ON THE 1977 BUDGET. THERE WILL PROBABLY BE LITTLE OPPOSITION TO SENI'S EXPRESSED INTENTION TO DROP THE FREE BUS RIDE SCHEME. THE TAMBON DEVELOPMENT PROGRAM IDENTIFIED WITH KHUKRIT, IS LIKELY TO BE TRANSFORMED BY GUTTING IT OF ITS KEY FEATURE--DIRECT GRANTS TO LOCAL GOVERNMENTS WHICH BYPASS THE INTERMEDIATE LAYERS OF BUREAUCRACY. THE DEMOCRATS, NEVER HAPPY WITH THE DIRECT GRANTS, WILL PROBABLY INCREASE THE AUTHORITY OF THE PROVINCIAL BUREAUCRACIES OVER THE PROGRAM, THUS EFFECTIVELY TURNING OVER GUARDING THE CHICKEN COOP TO THE FOX.

7. UNDER KHUKRIT, MINISTER OF FINANCE BUNCHU ROTCHANASATHIAN WAS THE CENTER OF ALL ECONOMIC DECISION MAKING. THE MINISTRY OF COMMERCE WAS LARGELY BYPASSED, AND THE NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT BOARD WAS VIRTUALLY IGNORED. BUNCHU WAS THE KEY OFFICIAL ON BUDGET MAKING DECISIONS AS WELL. HE WAS RECEPTIVE TO NEW IDEAS AND CONFIDENTIAL

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DREW ON PEOPLE OUTSIDE THE GOVERNMENT FOR HELP IN DEVELOPING SUCH PROGRAMS AS THE TAMBON DEVELOPMENT PROGRAM AND THE PADDY PRICE GUARANTEE PROGRAM. THE MAN MOST FREQUENTLY MENTIONED AS HIS SUCCESSOR, SAWET PIAMPHONGSAN, IS A PEDESTRIAN FIGURE WHO WILL NOT HAVE BUNCHU'S POWER. WE WOULD EXPECT THEREFORE THAT OTHER MINISTRIES, SUCH AS COMMERCE, WOULD HAVE A STRONGER POSITION IN THE NEXT GOVERNMENT AND THAT SUCH AGENCIES AS THE NESDB AND THE BANK OF THAILAND WOULD REGAIN SOME OF THEIR PREVIOUS AUTHORITY.

8. PERHAPS THE SINGLE MOST IMPORTANT LONG TERM GOAL FOR THE DEMOCRATS IS THEIR LAND REFORM PROGRAM. AN ATTEMPT WAS MADE TO BEGIN A LAND REFORM PROGRAM UNDER THE KHUKRIT ADMINISTRATION, BUT IT WAS AN EXTREMELY CAUTIOUS AND UNIMPRESSIVE APPROACH THAT WOULD HAVE TAKEN MANY YEARS FOR COMPLETION. LAND REFORM FORMED THE CENTRAL THEME OF THE DEMOCRAT PARTY PLATFORMS IN BOTH 1975 AND 1976, AND CANDIDATES PLACED PARTICULAR EMPHASIS ON IT DURING THE LAST CAMPAIGN. THE PARTY ANNOUNCED THAT LAND REFORM WOULD BE COMPLETED WITHIN FOUR YEARS AT A COST OF FOUR BILLION BAHT (\$200,000,000) PER YEAR. THE DEMOCRATS HAVE ALREADY WORKED OUT THE GENERAL MECHANICS OF THE PROGRAM,

BUT HAVE YET TO EXPLAIN HOW THEY INTEND TO FINANCE IT.
WITH DEFENSE SPENDING SURE TO TAKE AN INCREASINGLY LARGE
SHARE OF THE NATIONAL BUDGET, THE PROGRAM MAY RUN INTO
DIFFICULTIES.

9. IT WILL BE AT LEAST SEVERAL MONTHS BEFORE WE CAN
EVEN BEGIN TO EVALUATE THE NEW GOVERNMENT'S ABILITY TO
HANDLE THESE PROBLEMS. THE DEMOCRATS, IN THEIR LONG
HISTORY AS THE PRIMARY OPPOSITION IN THAI POLITICS, HAVE
SPENT LITTLE TIME WORRYING ABOUT POSITIVE PROGRAMS.
MAJOR ADJUSTMENTS IN THEIR POSTURE WILL BE REQUIRED BEFORE
THEY CAN EFFECTIVELY ADDRESS THE VARIOUS PROBLEMS DIS-
CUSSED ABOVE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 15 SEP 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL STABILITY, CENTRAL GOVERNMENT, ECONOMIC PROGRAMS, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ullricre
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BANGKO09171
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D760135-0587
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t197604115/baaaerpz.tel
Line Count: 179
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ullricre
Review Comment: n/a
Review Content Flags:
Review Date: 19 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 APR 2004 by buchant0>; APPROVED <28 SEP 2004 by ullricre>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROSPECTIVE DOMESTIC PROBLEMS FOR THE NEW THAI GOVERNMENT SUMMARY: THE NEW DEMOCRAT-LED THAI GOVERNMENT WILL FACE
TAGS: PINT, ECRE, EGEN, PGOV, TH
To: STATE INFO COMUSMACHTA BANGKOK
CINCPAC HONOLULU
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006